R.J. REYNOLDS

Tobacco Company

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January 14, 1997

Mr. Roy Flood, President
P & C Food Markets
PO Box 4965
Syracuse, NY 13221

Re: **Cigarette Category**

Dear Roy:

I thought it necessary to contact you relative to the state of the Cigarette Category within the Penn Traffic Group.

It's no secret that our industry is currently under attack by the FDA. At RJR, we are clearly aware of each issue, and our planning is underway at retail that will allow us to continue to do business with those retailers that choose to partner with us.

In a planning meeting that I had with Frank Winker on January 8, 1997, it was disclosed that Package Fixtures would once again be removed from the selling floor in your stores. A reaction of this nature is premature at this time for the following reasons.

The industry has asked the FDA for a ruling by February 28, 1997 on all current proposals. The industry has also asked that any proposals passed, include a grace period of compliance through August 31, 1997. It is during this 6-month period that we will work with our partners to ensure Federal Compliance. The proposals in their entirety would be the worse case scenario. Negotiations continue and we are confident that some concessions will be made.

The issue at hand that is of greater importance than the FDA ruling, is the emergence of the "Cigarette Store Concept". Quite simply, with or without the FDA ruling, the "Cigarette Store" is rapidly gaining popularity and has momentum at the expense of "Traditional Carton Outlets" such as, the Penn Traffic Group.

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Source: https://www.industrydocuments.ucsf.edu/docs/njbn0000

Two to three years ago, Carton Outlets represented between 30-35% of the industry's business. In 1996 they represented less than 20%. In 1996, the number of Cigarette Stores grew by 58% vs. 1995, and their business is now 12% of the industry.

Based on these two critical issues, we have developed what we call the "Store within a Store" concept. This concept will not only allow you to do business as usual within the guidelines of any FDA rulings, it will also protect you against the "Cigarette Store" concept by making you a participant in the "Cigarette Store" concept.

Please take the time to read through the enclosed materials. I will contact you by the close of business on January 17, 1997 to discuss any concerns you may have. I would like to schedule a meeting with you and anyone else you deem appropriate from the Penn Traffic Group in our home office in Winston-Salem, NC to view the "Store within a Store" that we have have on display and available to the trade.

Thank you in advance for your attention to this matter.

Sincerely,

D.W. Keeney
Key Account Manager

DWK/jb
Enc.

cc: Mr. F. Winker - P & C
Mr. B. Roth - RJR

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